June 14, 2022 (Revised)

Arliga Ecoworld Infrastructure Private Limited (erstwhile known as RMZ Ecoworld Infrastructure Private Limited): Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund- based - Term Loans	3,753.80	6,910.52	[ICRA]A- (Stable); reaffirmed / assigned
Total	**3,753.80**	**6,910.52**	

**Instrument details are provided in Annexure-1*

Rationale

The enhancement in the rated limits takes into account the conclusion of the transfer of identified assets of RMZ Infotech Private Limited (RIPL), along with associated liabilities, to Arliga Ecoworld Infrastructure Private Limited (AEIPL) through a scheme of arrangement approved by the NCLT. ICRA had been taking a consolidated view of AEIPL and RIPL pending implementation of the scheme.

The rating reaffirmation takes into account the strong portfolio of the completed real estate assets (12.08 mn sqft of leasable area) supported by long-term lease agreements and a good track record of tenant stickiness, owing to competitive rentals in most of the assets. The rating factors in the improvement in occupancy to 90% as of April 2022 compared to 88% as of September 2021; supported by healthy pipeline of enquiries, the occupancy is expected to further improve in FY2023. The rating also derives strength from the track record of sponsors, which are funds managed by Brookfield Asset Management. The Group is one of the largest real estate investment managers globally and has an established track record in India, further demonstrated by its recent listing of a Real Estate Investment Trust (REIT) in India.

The rating is constrained by the high leverage for the portfolio, resulting in modest debt coverage metrics. The impact of the high leverage is partly offset by the periodic fund infusion by sponsors for maintaining adequate liquidity in the SPVs to meet cash flow mismatches in the past. On a consolidated basis, AEIPL Group had unencumbered bank balances of Rs. 120 crore and additional liquidity in the form of debt service reserve accounts totaling to around Rs. 205 crore as of April 2022 respectively. The rating continues to be constrained by vacancy risks associated with the leased portfolio and exposure to interest rate risk which may result in weakening of debt coverage metrics. The vacancy risks are heightened by the impact of the Covid-19 pandemic on the commercial real estate sector, which has resulted in reduction in occupancy levels as many corporates have continued to operate under work-from-home mode through the pandemic. However, the risks are partially mitigated by the established operational track record of the assets, the strong tenant profile and the competitive rentals.

The stable outlook represents ICRA's expectation that the strong operational profile of the assets, along with the financial flexibility associated with the sponsor group, will support the credit profile of the rated entities. The portfolio has limited exposure to under-construction area and hence does not have material market risk associated with development portfolio.

Key rating drivers and their description

Credit strengths

Strong portfolio of completed commercial real estate assets – AEIPL currently has a portfolio of 12.08 mn sqft of completed area on a consolidated basis, with the overall occupancy level remaining satisfactory at 90%, supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets. The consolidated portfolio includes business parks located in Bengaluru, Chennai and Pune. The tenant profile in the portfolio remains strong and diversified with leading multinational and Indian corporates. The top-10 tenants generate around 35% of the total gross rentals. Some of the key tenants in the portfolio are Shell, SAP Labs, Honeywell, Standard Chartered, State Street, KPMG, HSBC, Intel and Morgan Stanley, among others.

Strong sponsor group with established track record – Brookfield Group is one of the largest real estate investment managers globally and has an established track record in India, further demonstrated by its successful REIT listing in India. Further, the Group has a track record in management of real estate properties and significant financial flexibility, which will support the asset SPVs in case of any refinancing requirement.

Liquidity supported by DSRA and cash balances - The liquidity is also supported by the presence of DSRA of around Rs. 205 crore maintained with the lenders, besides unencumbered bank balances of Rs. 120 crore as on April 2022 respectively. The impact of the high leverage is partly offset by the periodic fund infusion by sponsors for maintaining adequate liquidity in the SPVs to meet cash flow mismatches in the past.

Credit challenges

High leverage and moderate coverage indicators; exposure to interest rate risk – Consolidated leverage continues to be high due to the debt availed as part of the acquisition transaction. The debt / NOI for the portfolio is elevated, resulting in modest debt coverage metrics. Debt coverage metrics are also susceptible to volatility in interest rates going forward. Improvement in rental rates and occupancy levels, along with amortization of debt over the years, will support the leverage and coverage indicators going forward

Exposure to lease vacancy risks; vulnerability to cyclicality in the sector – Although the pandemic had low impact on occupancy in the portfolio of AEIPL, any weakness in the demand for office space may further impact the incremental leasing and the realisation of mark-to-market potential of the portfolio assets. However, the risk is partially mitigated by the strong tenant profile and the competitive rentals, which increase the tenant stickiness.

Liquidity position: Adequate

AEIPL's liquidity at a consolidated level is expected to remain adequate, supported by the stable rental income from the underlying assets and the low operational expenditure in the leasing business. The high tenant diversity and asset quality partly mitigate the risks of cash flow mismatches due to drop in occupancy levels. The liquidity profile is augmented by the loan specific debt service reserve accounts maintained by the company, totaling to around Rs. 205 crore and cash balances totaling to around Rs 120 crore as of April 2022

Rating sensitivities

Positive factors - Ability to lease out current vacancies and improve average rent rates in a timely manner or significant reduction in leverage, thereby resulting in an improvement in coverage ratios could be triggers for rating upgrade. Specific triggers for a rating upgrade include average 5-year DSCR for the portfolio being higher than 1.2 times and Debt/NOI of less than 8 times.

Negative factors – Downward pressure of the rating could emerge due to inability to maintain or improve occupancy level or material decline in rental rates or increase in interest rates, thereby resulting in weakening debt coverage metrics and liquidity pressures; specific metrics include decline in occupancy below 85%.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of AEIPL and its subsidiaries AAPPL along with ANSPL (as mentioned in Annexure -2) given the close business and financial linkages among them and a common sponsor support. Assets and cash flows of AAPPL and ANSPL are part of the security package for the debt availed in AEIPL.

About the company

Arliga Ecoworld Infrastructure Private Limited (AEIPL), erstwhile known as RMZ Ecoworld Infrastructure Private Limited, is wholly owned by a Brookfield managed fund, with AAPPL as its 100% subsidiary. ANSPL continues to be held by BSREP III New York II (DIFC). Through a scheme of arrangement, assets owned earlier by RIPL - Ecospace, Centennial, NXT and RMBP II – along with debt of Rs 3,075 crore has been transferred to AEIPL. The consolidated asset profile of AEIPL, AAPPL and ANSPL has a portfolio of 12.08 mn sqft of completed area on a consolidated basis, with an overall occupancy level of 90%. The portfolio includes business parks such as Ecospace, Ecoworld, Centennial, NXT in Bengaluru, RMBP I and RMBP II in Chennai, Icon in Pune and Northstar in Bengaluru. The tenant profile in the portfolio remains strong and diversified with leading multinational and Indian corporates such as Shell, SAP Labs, Honeywell, Standard Chartered, State Street, KPMG, HSBC, Intel and Morgan Stanley. BSREP III New York FDI I (DIFC) and BSREP III New York II (DIFC) are a part of Brookfield Group, which is one of the largest real estate investment managers globally and has an established track record in India.

Key financial indicators

AEIPL (Consolidated)	FY2020P	FY2021P
Operating Income (Rs. crore)	1259.9	1229.8
PAT (Rs. crore)	-124.1	-6541.5
OPBDIT/OI (%)	66.6%	75.3%
PAT/OI (%)	-9.9%	-531.9%
Total Outside Liabilities/Tangible Net Worth (times)	5.4	-2.4
Total Debt/OPBDIT (times)	10.8	11.1
Interest Coverage (times)	0.8	0.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2020 and FY2021 numbers are provisional in nature

Note: The financials till November 2020 (8MFY2021) include two assets – RMZ Infinity Gurgaon and RMZ Infinity Bangalore which are not part of the portfolio acquired by Brookfield Group. Therefore, going forward, the financials will not be comparable with the past financials reported.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of April 2022	Date and Rating on	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020	
					June 14, 2022	October 29, 2021	October 01, 2021	Apr 6, 2021	Oct 9, 2020	Dec 26, 2019	Aug 30, 2019
1	Term Loans	Long-term	6,910.52	6,910.52	[ICRA]A-Stable)	[ICRA]A-Stable)	[ICRA]A-(Stable);	[ICRA]A-(Stable)	[ICRA]A&	[ICRA]A (Negative)	[ICRA]A (Negative)
2	NCD	Long-term	--	--	--	--	[ICRA]A-(Stable); Withdrawn	[ICRA]A-(Stable)	[ICRA]A&	[ICRA]A (Negative)	[ICRA]A (Negative)
3	Unallocated	Long-term	--	--	--	--	--	--	--	--	[ICRA]A (Negative)

&= Under watch with developing implications

Complexity level of the rated instrument - Simple

Instrument	Complexity Indicator
Long-term – Fund based - Term loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loans	FY2017-FY2022*	-	FY2036 @	6910.52	[ICRA]A-(Stable)

** Represents loans sanctioned between FY2017 and FY2022*

@ Represents the farthest maturity date among the various maturity dates for different term loans

Source: *Company*

[Please click here to view details of lender-wise facilties rated by ICRA]

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Arliga Ecoworld Infrastructure Private Limited (AEIPL)	Parent	Full consolidation
Arliga Azure Projects Private Limited (AAPPL) [erstwhile known as RMZ Azure Projects Private Limited]	Subsidiary (100.00%)	Full consolidation
Arliga Northstar Project Private Limited (ANSPL) [erstwhile known as RMZ Northstar Project Private Limited]	Common Sponsor	Full consolidation

Source: *Company*

Note: *ICRA has taken a consolidated view of AEIPL and its subsidiary AAPPL along with ANSPL while assigning the ratings.*

Corrigendum

Entity name is rectified to “Arliga Ecoworld Infrastructure Private Limited” from the previous incorrectly mentioned name “Arlinga Ecoworld Infrastructure Private Limited”.

ANALYST CONTACTS

Rajeshwar Burla
+91-33-71501100
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91-80-43326415
mathew.eranat@icraindia.com

Ritika Periwal
+91-80-43326412
ritika.mundhra@icraindi.com

Neha Malusare
+91-80-43326400
neha.malusare@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91-22-6169-3300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches